

Jan. 20, 1993

LETTER 1113

CLINTON HONEYMOON? Five days of parades and made-for-TV celebrations, and then -- Iraq, Somalia, Haiti, deficits, taxes, a sky-high stock market and cynical newspaper columnists.

THE PICTURE: With all the speculation and hoop-la and heavy mutual fund buying of 1992, the actual statistics are worth pondering.

The **Dow** closed the year 1991 at 3168.83. It closed the year 1992 at 3301.11. That represents an increase of only **4.17%** for 1992.

The broad **NYSE Composite** (which includes all the stocks on the Big Board) closed 1991 at 229.45. It closed 1992 at 240.21, for an increase of only **4.68%**.

The broad **S&P 500** closed 1991 at 417.11. It closed the year 1992 at 435.71, for an increase of a mere **4.45%**.

The fact is the return on T-bonds would have beaten the return on any of these three major averages. No wonder so many investors were frustrated in 1992.

In my opinion, what we're seeing today is a market that has grown fat and sassy due to massive and continuing mutual fund buying by the public. It's a market that's been straining on the upside against a ceiling of extreme overvaluation. Finally, it's a market that's been trading off of collapsed interest rates, interest rates that have been driven down by three years of persistent manipulation on the part of the Federal Reserve Board.

PRICE ACTION: Instead of the usual daily chart, I've included a weekly chart of the D-J Averages going back to mid-1989 (chart courtesy of *Mansfield*). What we see here is a rare "double non-confirmation" in the Averages. With that in mind, let's follow the price action of the last four years carefully.

The Dow made a high in 1989 of **2791.41**, confirmed by a high of **1532.01** in the Transports.

Next (during 1989-90) Transports collapsed while the Dow continued to advance. The Dow hit new record highs in 1990, 1991 and again in 1992. As you can see on the chart, the Dow high of **3413.21** (recorded last June 1) still stands as its all-time record high. So from 1989 to mid-1992, the Dow was strong while the Transports were weak.

Now turn to the Transports. Transports recorded a record high of 1532.01 in 1989. They then caved in. Following their 1989-90 collapse, the Transports turned up violently. They continued advancing during 1991 and recorded a high of **1467.67** in February, 1992. Another decline ensued, followed by the most recent Transport rally to a January 11 recovery high of **1489.70**.

But this time, the weakness switched from the Transports to the Dow. For despite the new recovery high in the Transports (above their earlier 1992 high), the Dow has refused to confirm.

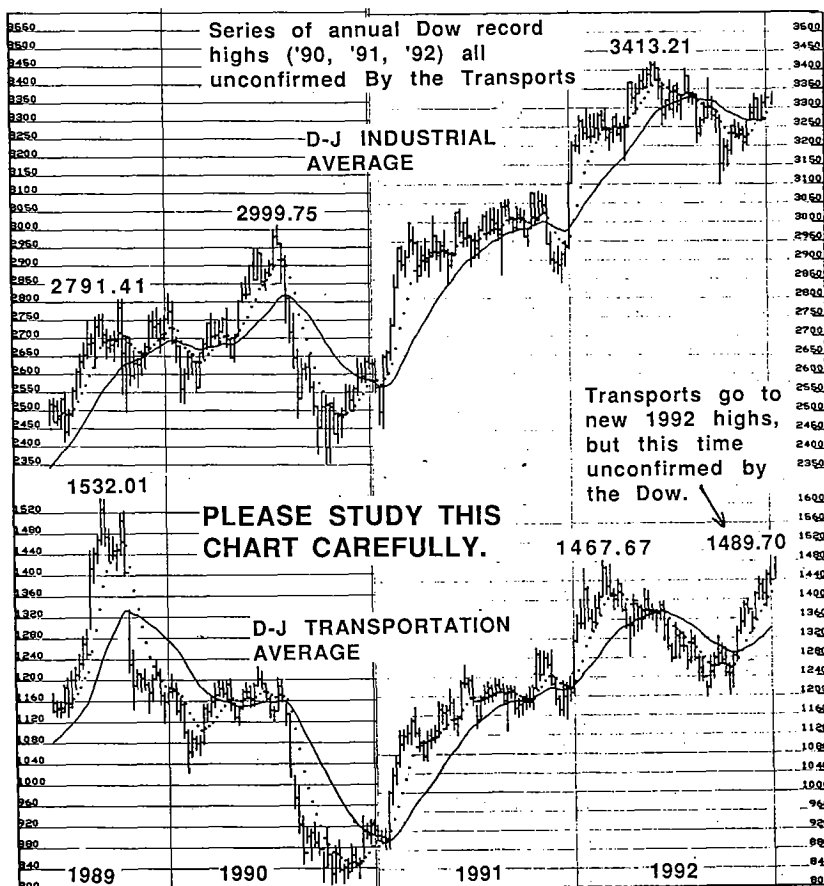
Jan. 8 DJIA 3251.67; PTI 3648; A-D Ratio -8.10
Jan. 15 DJIA 3271.12; PTI 3673; A-D Ratio -7.30
Dow Yield: 3.17%; Dow Price/Earnings: 45.4
Dow 200-day MA: 3293; Dow 30-day MA: 3294
Dow Times Book Value: 2.51; PTI 89-day MA: 3605
Percentage of Undervalued Blue-chips: 8%
Low Risk Buy Index: +101

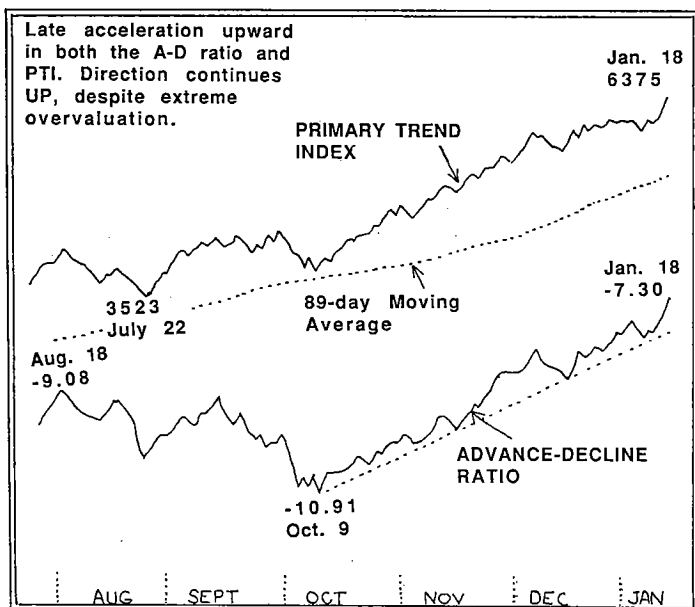
So the big picture is this: Following their 1989 record high, the Transports turned weak in that they could not confirm the successive new highs in the Dow.

Then following its June 1, 1992, record high of 3413.21, the Dow turned weak in that it could not confirm the most recent (1993) high in the Transports.

So it's a case of a rare double non-confirmation -- first the Transports failed to confirm, then more recently the Dow failed to confirm. **Conclusion: This is a weak price structure.** I don't care where the Transports go from here, if the Dow stubbornly refuses to better its June 1, 1992, high of 3413.21, there's going to be trouble.

DECLINING UTILITY PEAKS: No analysts have mentioned or noticed this, but the yearly highs for the D-J Utility Average are as follows: for 1990 -- **236.23**; for 1991 -- **226.15**; for 1992 -- **225.59**. The high in 1993 so far was **221.64**. So here, in the third D-J Average, we have an interesting progression of four declining peaks. And, I think that's significant.





DECEMBER LOWS: Around the end of the year and into January, market followers haul out all kinds of trendy formulas such as the Super Bowl theory, what the market does on the first five trading days of January, what it does for the entire month of January, etc.

Personally, I've never been sold on any of these. However, I have found one item to be important. It's the action of the Dow in relation to its preceding December low. If during the early months of the new year the Dow holds above its December low, that tends to be a good sign for the market. However, if, during the early months of the new years, the Dow breaks below its December low, then watch out -- the odds heavily favor the new year being a bad one (and this is particularly true if the December low is violated in January).

The 1992 December low for the Dow was **3255.18**, set on December 2. Unfortunately, that low was violated when, on January 8, the Dow closed at 3251.67.

I've checked all the market action going back to 1945. There were 19 instances in which the December low was broken in the first quarter of the new year -- 13 times in January, 4 times in February and twice in March. Of the 19 violations, 16 led to either severe reactions during the new year or bear markets. The worst markets following violations of the December lows occurred in 1953, 1957, 1968, 1969, 1970, 1973 and 1984.

Conclusion: The action of the Dow so far in 1993 has not been favorable. The fact that the December low was violated in January is a negative indication for 1993.

The comparable December low for the S&P 500 was **429.89**, recorded on December 16, 1992. That level was fractionally violated -- on January 8.

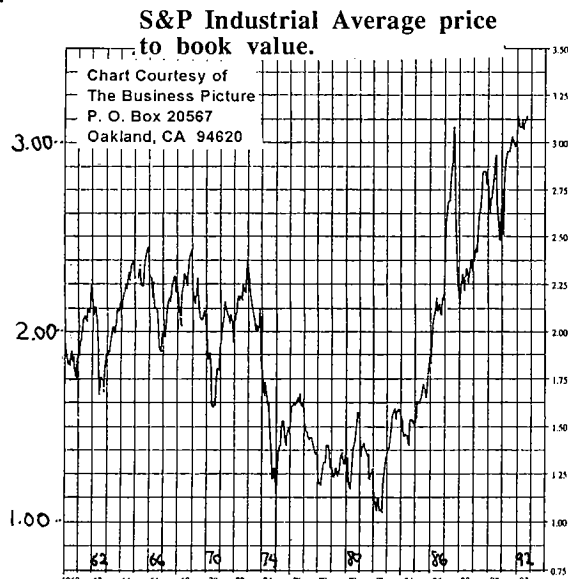
PRIMARY TREND INDEX: The PTI can lead, it can be coincident, or it can lag the market. The page 2 chart shows the PTI still well above its moving average. Then there was the late upward acceleration. A stronger market ahead -- or a last gasp? Can't tell yet, but me, I'm not playing the upside.

MUTUAL FUNDS: The public's been rushing to buy mutual funds with almost reckless abandon. The weird fact is that today there are more mutual funds (3000) than there are common stocks on the NYSE. To add to this absurdity, the banks have caught the sweet smell of mutual fund profits, and they are joining the parade by creating still more funds of their own.

One out of every four families in America now owns a mutual fund. Thus, the US economy is probably more closely tied to the action of the stock market than ever before.

Says Charles Biderman of *Market Trim Tabs*, "Wall Street will sell for a commission whatever investors will buy. Right now, equity funds are being bought as if they were bargains, despite the fact that they are selling at the highest relationship between price and value since 1926. Those selling mutual funds are the same people who sold real estate limited partnerships in the mid-1980s, oil and gas deals in the late 1970s and REITs in the early 1970s."

BOOK VALUE: Analysts have long argued about the real meaning of market price as compared with book value. At any rate, nobody will dispute the fact that stocks are on the bargain table when they sell at or below book value. That's hardly the case today. Study this chart. It may be a classic textbook item in years to come.



INVESTMENT POSITION: I'm staying with the big question mark. (1) The frothy speculation bothers me. (2) The overvaluation in the market scares me. (3) But my PTI keeps rising, so I'm copping out with the question mark rather than the bull or bear.

I've written so much about overvaluation that it would be rather presumptive of me to be recommending stocks here. I'd say the best position here is a highly liquid one. There's nothing wrong with holding cash while we watch the most expensive market in history do whatever it wants to do.

Every economist, commentator and newspaper columnist I read is saying that business is going to be better in '93, not booming-better but just gradually better. If you love unanimity, you've got it in the economic forecasts. Question: is this all news to Wall Street or is it just possible that the market has already discounted the best that lies ahead? Second question: if the economy's fated to continue rising, why hasn't the Dow been able to push up to within a hundred points of its June high? Huge volume on the NYSE with an unmovable Dow has often spelled trouble in the past. But hopefully, this time it will be different.

Many years ago a psychoanalyst told me, "Richard, it's easy to get married, but hard to stay married." Over a lifetime I've found that the old analyst knew what he was talking about. Here's the corollary for the stock market, "It's easy to buy stocks, but hard to come out with a profit." That is, unless you buy stocks when they represent outstanding values.

HELLO, REALITY: Bush studiously avoided telling the American people the truth about the federal deficit. Clinton obviously knew the truth, but it's much more advantageous to accuse Bush of providing the wrong figures. By blaming the Bush bunch, Clinton can retreat from most of his pre-election promises (and it looks like that's exactly what he's planning).

At any rate, some of the lying and avoidance has now ended. In the face of the ghastly statistics, Clinton is being forced to change his pre-election scenario. Originally Clinton stated, "Our plan is to cut the deficit in half within four years." But on January 7 Clinton backed off as he said, "We now see the full magnitude of the debt that we will inherit and the challenge we must confront. The unsettling revelation, however camouflaged, is that the projected deficit for '97 has grown by \$60 billion, and that left unchecked, it could soar to above \$400 billion by the end of the decade. This sounds the final warning bell. This endless pattern of rising deficits must stop."

Here are a few salient facts: Since Reagan took office the federal debt has quadrupled from \$735 billion under Reagan to over \$4 trillion today. The federal debt is now half the size of the entire US economy. Just the interest on the federal debt now exceeds all federal spending on education, science, law enforcement, transportation, housing, food stamps and welfare!

As I've said many times before, debt and deficit spending are eating this nation up alive. America's so-called "prosperity" has been engineered on federal deficit spending of over \$1 billion a day. That kind of debt build-up must end up with (1) high inflation as new money is created in order to service the careening, compounding federal debt, or (2) austerity measures and recession as taxes are raised, federal programs are reduced in a valiant attempt to cut back on the deficit, or (3) collapse as the rising debt structure destroys the credit and credibility of the US government and as it becomes difficult or almost impossible to sell or roll over US debt, or (4) a run on the dollar as it becomes clear that the government is not taking real steps to deal with the deficit. In that case, interest rates in the US would sky-rocket and the nation would sink into recession or depression.

A few weeks ago Bush submitted his budget for next year. Said Jim Sasser of the Congressional Budget Committee, "It's not a budget, it's an irrelevance. And it's a confusing irrelevance at that." So much for Bush's final fiscal mish-mash.

But Bush's final budget does provide some interesting insights. Outlays for Social Security will rise 39% by 1998 -- from \$285 billion in '92 to \$396 billion in 1998. Medicare costs will double in six years, from \$116 billion in '92 to \$236 billion in '98. Interest on the federal debt will rise 55% by '98. The federal debt will rise from \$3 trillion last year to \$4.8 trillion in '98.

My own comment is that the federal debt is already over \$4 trillion and that the total federal debt will be more like \$6 to \$8 trillion by '98. The Bushie boys are still in dream land or more likely just kidding the American public.

Washington's problem is this -- how do you avoid the pain of the deficits, and how do you avoid the ultimate reckoning. The American way to deal with the sky-rocketing deficits is via inflation. Inflation is as American as apple pie. The next problem -- how do you get inflation started up again?

Of course there's intense inflation in one area -- the stock market. If the world can be likened to a single flow of funds chart, then the flow has been into stocks. Stocks really represent today's bastion of inflation -- the fact is that prices on Wall Street are at their highest level in history.

So where will the pain of the deficits hit? We'll see the pain next in either stocks (deflation) or in bonds and gold (inflation). But I'll make this statement and I'll stand on it -- no nation can create true prosperity by running deficits of \$1 billion a day and get away with

that process for long. Sooner or later, either the currency must go or the financial structure must go. Take your choice.

In an editorial in the January 11 *WSJ*, entitled, "It Costs a Lot to Feed a Deficit, Bill," George Melloan writes, "Mr. Clinton can continue to watch the federal debt soar, and at the present rate it won't take many more years for it to approach the Italian level. He can raise taxes, but then he should consider the possibility, even the likelihood, that given the present very delicate balance of the US economy, a new tax increase would be just as unproductive of revenues as the one in 1990. Higher taxes could even plunge the country into a new recession. Or Clinton could do what the Italians most likely will do: put heavy pressure on the central bank to finance the deficit and risk the inflation tax."

Russell comment: Bill Clinton will now get a lesson in the magic of compounding -- but it will be a lesson in negative compounding, and it will be applied to the greatest mass of debts and deficits the world has ever seen. Advice to Dow Theory Letters subscribers -- keep your eye on gold and the dollar.

CURRENCIES, BONDS: The Russell guess: the dollar has seen its approximate peak of strength, the mark and the Swiss franc have bottomed out, and US bonds are forming a top.

For months now traders around the world have been predicting monetary easing by the Bundesbank. As a matter of fact, the continuing talk of German monetary easing has almost become a bore. But on January 13 Bundesbank president Helmut Schlesinger stated that the first priority of German monetary policy is to fight inflation. Speaking to the Group of Seven (G-7) Schlesinger stated that Germany was still experiencing "unduly high rates of monetary growth." He added that monetary policy "should not be turned into a pacemaker for efforts to kick-start economic activity." He continued that confidence in the D-mark "is a must" and that loss of confidence in the D-mark could lead to depreciation of the D-mark and therefore higher interest rates.

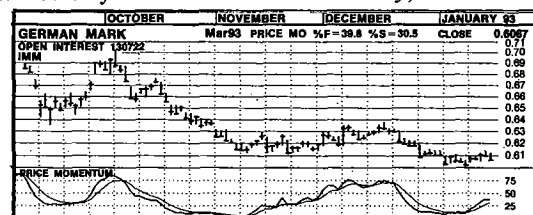
What a contrast with the US' Fed, which uses monetary policy for everything from political favors to re-liquefying the banks to attempting to kick-start the economy.

My own reading of the charts and the fundamentals suggests that the dollar is in the process of topping out. Large interests (commercials) have now assumed a huge bull position in the D-mark while smaller traders and the currency funds have assumed a massive short position against the D-mark. I expect the commercials to win the battle.

As for the bonds, it looks to me as though the Treasury bonds have established a double top in the 105 area, and are in the process of breaking down. For a decisive top-out, I would want to see the March T-bond contract break down to 100.

Why should there be any weakness in bonds? In a phrase, the US government's finances. My feeling is that the US economy is a good deal weaker than the government figures suggest, and that the move towards higher taxes and a cut in government spending (plus the severe problems of many states) will prevent the government from taking the needed action to seriously reduce the deficits.

Furthermore, the stock market is in delicate shape. If a bear market does start, the economy will "unexpectedly" turn down, and this will eliminate all talk of reducing the deficit "at least for now." In fact, a bear market would reduce tax receipts to the government and send the federal deficits up to new highs. It's difficult to believe that the bond market is not mulling over all these possibilities (Chart courtesy of *Investor's Business Daily*).



NOTES & QUOTES: I just received a most interesting paper from Paul Macrae Montgomery of Legg Mason. Paul has for many years studied the implications of top magazine cover stories. His thesis is that when an item is important enough or popular enough to hit the cover of *Time* or *Business Week* or perhaps *Newsweek*, then its influence may have passed its peak.

The piece I received from Paul pictures *Time* magazine with Clinton on the cover, and the title is "Man of the Year." Writes Paul, "We found that, more often than not, when the President of the US has appeared on the cover of *Time* in a clearly complimentary context, the national psyche, and the nation's securities markets, were usually near a trough . . . Since it is impossible to conceive of a more positive biased assessment than the one *Time* has just rendered, it is impossible not to rate this particular sentiment indicator as unfavorable for the market . . . In the first place, *Time's* 'Man of the year' is traditionally defined as 'the person who has most influenced the course of world events -- for good or evil -- in the past year.' Since Clinton has not actually done anything yet, the very fact that Clinton was selected for this honor, might be considered fulsome in the extreme."

Russell comment: It is also interesting to me that Clinton is the first president-elect within memory to have waived most of his campaign pledges even before he takes office (usually, they go back on their promises after taking office). My thought (and this is confirmed by Montgomery's piece) is that we are seeing Clinton's peak of popularity right now.

Incidentally, along these same lines, the current cover of the Jan. 18 *Business Week* reads, "The Power of Mutual Funds, How They're Reshaping Investment Finance and the Economy." Interesting cover, I thought to myself.

What market had the highest returns last year? It was the Brazilian bourse, where stocks were up 981%. But wait, the gains were illusory. During the same period Brazil's currency lost 90% of its value.

Twenty miles south of here in Mexico the government engineered a disappearing act. What disappeared was three zeros off the peso. Up to a few weeks ago, the peso was valued at 3,075 to the dollar. Two weeks ago the Mexican government whacked three zeros off the peso. The peso, dear gringos, is now valued at three to the dollar.

We may be the "most prosperous nation" in the world, but note this from a January 3 editorial in the *New York Times*: "The number of New Yorkers subsisting on welfare payments has passed one million for the first time in 20 years. The cost of Medicaid continues to surge. The waiting lists for public housing have grown to 240,000 families --almost as many as the number of apartments already occupied. The story is the same in virtually every large city. Neglect and wrongheaded social policies aggravated by recession leave cities without the resources to pay for their poorhouse functions. But the poor will not go away." Russell comment: I think back; was it like this when I was a boy? Maybe it was, but I don't ever remember seeing so many vagrants, so many homeless people sleeping in the streets, so many down-and-outers begging for handouts, so many people with signs, "Will work for food." What's happening?

Last week *Time* magazine came out with a special edition on Mega-cities. They list 20 mega-cities from Tokyo (pop. 25 million) to Sao Paulo (pop. 22 million) to NYC (pop. 16 million) to Mexico City (pop. 15 million) to LA (pop. 11.9 million) and on down the line. Of the 20 monster mega-cities, 18 are in developing countries. The description of life in the mega-cities varies, but for most it is horrendous. I left NYC in 1961 -- that was about the last year you could park your car on the street overnight (yep, there were actually plenty of parking spaces) and find your car whole and alive in the morning. LA is number 7 on the mega-city list; problem is that I find it hard to breathe there (it's not me, it's the smog). A recent study states that the average speed of traffic in LA is 11 miles per

hour. No wonder Californians are moving out to the desert -- or out of the state.

Speaking of the desert, on a recent trip to Palm Springs I was amazed at what's happening on the California desert. For instance, Palm Desert, which was a little bedroom community 20 years ago, is now huge; it spreads out for miles with new housing developments, shopping centers, etc. Actually, if you fly over California coming from the east you can see that almost all of the state's population of 30 million lives within 25 miles of the coast. Away from the coast, a huge percentage of California's land mass consists of unpopulated desert, barren for as far as the eye can see. The entire population of the US could easily be fitted on the California desert except for two problems -- summer heat and water.

How's the Golden State doing financially? Well, governor Pete Wilson has just proposed "an austere" state budget of \$51.2 billion. The recession-driven plan calls for an 11% drop in spending that could lead to a tripling of community college fees plus large fee increases for state universities, a 19% reduction in welfare grants, the curtailing of a broad range of health services for the poor, and a dramatic cut in the budget of every city and county in California. Sadly the Golden State is being killed by deficits, sliding defense income, rising medical bills, fat welfare costs, wealthy people leaving for other states and collapsing tax income. But hey, we still have great weather.

I've always said that the single hardest thing to do is to get the right information on anything in any area. Well, after many phone calls and questions, I finally got the right info on my Social Security (I've been paying SS taxes since the '40s and have yet to receive a dime). From ages 65 to 69 every three bucks you earn reduces your SS benefits by one dollar. So roughly, if you are between ages 65 to 69 and you're making \$10,000 or more a year, you collect nothing. But at age 70, according to current law, you can earn any amount on the job and collect your Social Security. Here's hoping I make 100.

For all you World War II Army Air Force subscribers and for all you airplane buffs, hearken to this. I walked into a store in San Diego and spotted a shelf of beautiful airplane models, all made of wood, each with about a foot wing span, and each painted meticulously with full military or civilian stripes, stars, insignias, etc. I bought a model of my old plane, a B-25 (I was a bombardier on B-25s with the 12th AAF in Europe). I also bought a gorgeous model P-51 (the best fighter of WWII). Ah, but they made a mistake. On the bottom of one of the pedestals was the address and number of the distributor, Griffin Air Replicas, (817) 599-3345. I paid \$200 for the models, but when I called Griffin the price was only \$149. I bought three additional planes from Griffin. The planes are hand-carved in wood and meticulously painted (they're made in the Philippines). So if you want a beautiful model of any plane, old or modern, call Griffin. These models are things of beauty, believe me (as usual, I make nothing on my recommendations).

When I get a letter or package which starts "Dear friend" or "Congratulations, you have just won --", I immediately dump the item in the nearest waste paper basket. The sheer number of blatant gimmicks coming in the mail these days is amazing. I can't believe the public can be suckered into taking the bait -- but the idea of something for nothing must work or they wouldn't keep mailing this junk to millions of gullible Americans.

The US insurance industry originally figured that their losses due to Hurricane Andrew would be \$7.3 billion. It now turns out that the losses may top \$16 billion. This would make Andrew the most costly disaster in US history, twice the cost of the previous record disaster, 1989's Hurricane Hugo. So far, insurance companies have written checks for damage on 125,000 houses, and the massive payments are actually part of the reason why Florida has pulled out of the recession.

One thing is almost guaranteed -- taxes are going up under Clinton. If you're older and have big bucks, consider this: you may live to

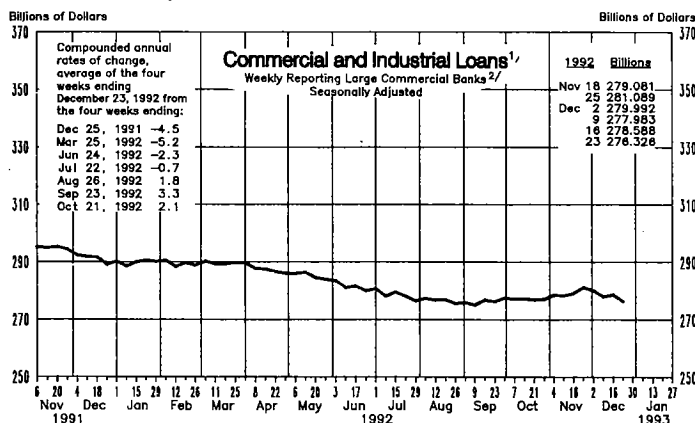
be 60 or 80 or 100, but you can't take it with you (the government will make sure of that). One thing you can do is get rid of your bucks while you're still here, and maybe do some good with those dollars as well. Under current law you can give \$10,000 a year to as many people as you wish (\$20,000 if you're married). A few weeks ago *Barron's* added a few other but lesser known ideas. You can pay for anyone's education as a gift, but you must pay directly to the institution, not to the recipient of your largesse. Second, you can pay for anyone's medical, but again you must pay the doctor or the hospital directly, not the patient. These are all tax free gifts to the receiver. And they're a way of doing some good with your money, rather than letting the government grab it and waste it, as is their wont.

By the way, a headline story in the January 8 *NY Times* dealt with a depressing fact. Comptroller General Charles Bowsher "painted a grim picture of a government plagued by mismanagement, unable to collect delinquent taxes and unwilling to acknowledge the full cost of long-term commitments." In other words (surprise), our government is wasting billions of dollars. In department after department, sloppy or antiquated accounting methods, fraud, pay-offs and stupidity allow for untold truckloads of dollars to go down the drain. I've often mulled over the idea that I've paid taxes all my life to cover the cost of a single nose cone, a cone for one of the thousands of nuclear warheads that will never be used.

Diamond sales in '92 were down to a seven year low, although prices have held up remarkably well. Not so with impressionist art, where some prices are down as much as 50%. The Japanese, who paid outrageous prices for many paintings, are now sitting and waiting (hopefully) for prices to advance so they can get some of their money back. In the wild late days of the '80s outstanding art was considered "real estate that you can hang on the wall." That was about right, since real estate prices have sagged badly in Japan, with home prices in the Tokyo area down over 15% last year alone (and commercial real estate in the US down an average of 30%).

Mr. Clinton will pay for George Bush's cowardice and stupidity in handling Saddam Hussein. Bush never asked for an "unconditional surrender" or even an admission of defeat from Saddam. All Bush asked was that Iraq get out of Kuwait. More recently Saddam has been trying to make a fool of Bush (while testing Clinton's resolve). To his credit, Clinton has let it be known that he will be tough on the Iraqi dictator. The minor raid of January 13 is hardly likely to bother Saddam. Expect more "cheat and retreat" in coming months. Saddam's probable scheme -- to make a deal with Clinton, "I'll be good if you allow me to do anything I want within the borders of Iraq."

Unhappy Note: According to a new poll by the *Times Mirror*, 66% of Americans believe that the nation is still in recession. By the way, below is that latest chart from the St. Louis Fed. Commercial and Industrial loans are going nowhere. If things are getting better and the banks are making loans, it sure doesn't show on this chart (and I was taught that when business picks up, part of the pick-up shows with a rise in bank loans). Mmmm, are they kidding us about the recovery?



Does anyone believe the government's figures on inflation (they claim it's only 3%). This from syndicated columnist Malcolm Berko: "Suzie and Sherwin tell me that prices in their world have increased more than 3%. Suzie's rent was raised \$35 a month, the insurance policies on her home, health and car rose 12%, and her university tuition (she's gone back to school) increased 16%. She recently paid \$55 for an eye exam, \$235 for a new pair of glasses, and her cookies at Dunkin' Donuts increased from three for \$1 to 40 cents each. Sherwin, who does the family shopping, is shocked at the sharp rise in the cost of fresh fruits and vegetables. He knows his children's school supplies, orthodontists and cereals increased more than 3%..." *Russell comment:* Well, you get the idea. Doesn't the above jibe pretty closely with your own experience? Inflation at 3%? Gimme a break.

Barry Diller (he was the brain behind the Fox Network) has spent \$25 million to buy 3% of QVC Network, Inc., which is the network which deals in home shopping. Up to now, TV shopping has consisted pretty much of selling zirconium rings and trick can openers. But the January 6 *Women's Wear Daily* has a major article to the effect that shopping by TV may be the future of fashion. Many up-scale fashion manufacturers are enthusiastic about selling their wares via TV, and they think that if anybody can get that trend going, it will be Barry Diller. There are only two major operators in home TV sales, QVC and Home Shopping Network. Said designer and manufacturer Calvin Klein, "I think Barry Diller is a genius. I honestly haven't thought about the idea of televised shopping because it's been done so poorly. But I know that if Barry Diller is involved, it will be fabulous and successful." QVC is listed on the NASDAQ at around \$38. Is it a buy? I don't know, but it's worth looking into -- Diller hasn't failed yet, and here's your chance to be his partner.

What constitutes a genuine "power" in Hollywood? It's the person who can say, "We're going to make this movie." Who constitutes a "hot property" in Hollywood? An actor or actress who can almost guarantee that a movie will be a success (i.e., make money). Who are the current hot properties? There are four -- Kevin Costner, Barbra Streisand, Tom Cruise, Julia Roberts. Who's a "blue chip" property? Jack Nicholson (he made a cool \$50 million on *Batman*). Who's trading up? Geena Davis and Sharon Stone. Who's rising fast? Wesley Snipes. Who's causing trouble? Steve Martin and Eddie Murphy (their recent pics did not make money). What was the top grossing film of 1992? It was a pic the critics disliked and the audience was cold on (but they lined up to see it, anyway). It was *Batman II*, which pulled in over \$160 million.

China is looming as the largest market for luxury goods in the world. Although the average Chinese makes only \$450 a year, there are thousands of cash-rich Chinese entrepreneurs who have money to spend. Furthermore, luxury retail shops now line the main streets of many cities in China, and this is particularly true of major cities on China's south coast. Facts: Pierre Cardin currently operates 50 stores in China and is planning to open 50 more. Rado watch company of Switzerland expects to sell 10,000 watches in China this year at a cost of \$1,300 per watch. Hong Kong shipped three million bottles of cognac to China last year (and nobody knows how many bottles of cognac was illegally shipped in). Yep, China, it's the coming luxury market.

Here's a question you can make money on. Bet a gambling friend that he can't name the biggest selling liquor in the world. Allow him three guesses, and the odds are that he'll be dead wrong on all three. The biggest selling liquor *by far* is sake. All of Asia drinks sake, and that includes Japan and 1.16 billion Chinese.

Speaking of the Far East, an exotic sport is capturing American favor -- it's Sumo wrestling. The American Sumo Wrestling tour, featuring present and former NFL linemen (some now up to 400 pounds) starts on January 29, and the sponsors are expecting sellouts in large arenas nationwide. Note: the current hottest selling Nintendo game in the US is a Sumo wrestling game.



LATE NOTES, THOUGHTS, IDEAS: Here's the one you've been waiting for -- I call it "A Montage for the '90s." Or maybe I should just call it, "Clint-o-rama"?

Clinton says Bush hid growing deficit imperiling recovery

By FINLAY LEWIS
Copley News Service

WASHINGTON — President-elect Clinton accused the Bush administration yesterday of "camouflaging" a growing deficit that could threaten Clinton's am-

tence of high deficits is likely to make it more difficult for Clinton to win political acceptance of his longstanding designs to increase spending on infrastructure and on programs such as education and worker training.

Unlike normal administration budget did not provide a com-

**GROWING U.S. DEBT
IS LIMITING OPTIONS
OPEN FOR CLINTON**

MAJOR BUDGET CHALLENGE

Growing Shortfall and Interest
Costs Will Make Campaign
Promises Hard to Fulfill

By ROBERT PEAR

Special to The New York Times

WASHINGTON, Jan. 2 — A vast and growing Federal

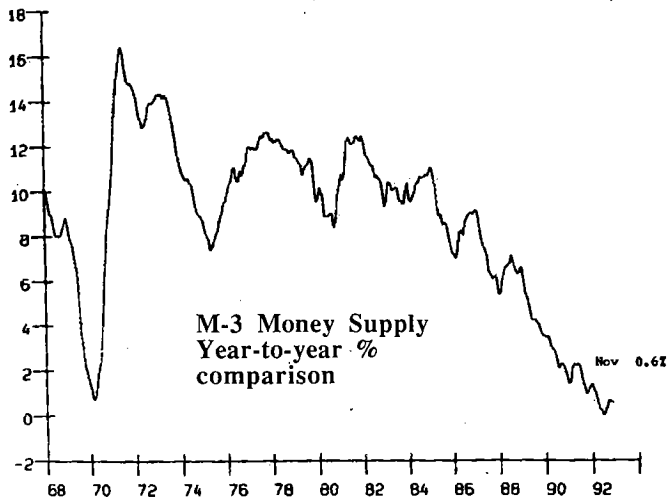
**CLINTON BACKS OFF
HIS PLEDGE TO CUT
THE DEFICIT IN HALF**

REACTS TO BUSH ESTIMATES

President-Elect Terms Figures,
Including \$305 Billion Gap
for 1997, 'Unsettling'

Figures released late last Thursday show M-2 down \$7 billion and M-3 down a whopping \$25 billion. Dovetail these figures with the chart of the going-nowhere Commercial and Industrial Loans (page 5), and it makes me wonder whether the economy is really growing or whether the pencil-pushers in Washington (who always feel political pressure) are just kidding us -- nah, they wouldn't do that, would they? (Chart of M-3 courtesy of Ed Hyman and the *ISI Group*).

NEXT MAILING: Feb. 3, 1993



If you want to play in this market, you have to forget all about values and simply follow my Primary Trend Index. The old saying goes, "Money makes the world go round," and you can certainly apply that to the current market. Money continues to pour into the mutual funds and pension funds, and that money combs Wall Street for places to go. All of which has been putting steady

upward pressure on stocks -- it shows in the A-D ratio and it shows in the PTI (chart on page 2). Professional switching is rapid and intense -- last week it was out of the drug stocks and into Motorola and Intel and Microsoft. Kodak gets a new boss who's a cost cutter, and up goes EK. It's not easy when values are thin and the market is frothy, but that's the game today and if you can't stand the Wall Street heat, well, get on the sidelines and watch the show.

With the NASDAQ, the S&P and the NYSE Composite indices all hitting new highs, the big question on every market student's mind is -- "Will the Dow catch up, will the Dow finally rally above its June 1 high of 3413.21?"

Subscribers should remember that the D-J Industrial Average contains giant issues, stocks that really represent a cross-section of the US economy rather than specialty-type stocks. That's why veteran investors get nervous when months go by and the Dow fails to follow other more speculative indices to new highs.

NOTICE: For many years I have offered two chart albums. One is a COMPLETE DAILY HISTORY of the D-J Averages (Industrials, Transports, Utilities, Bonds and volume) from their inception (back to 1885) to the present. Important daily high and low points are labeled -- also, important historical and economic events are shown, and in this way the student can see the effect of the events on the market. There is one 11" X 17" page for each year, and the albums are loose-leaf so that each new year can be added.

The second album shows the modern history of the Dow and the advance-decline ratio daily going back to 1931. I consider the Dow/A-D ratio relationship to be absolutely essential in analyzing the market. Here in page after page you can follow all the price/breadth confirmations, non-confirmations and divergences over a 62-year period. This album is loose leaf and is the same size as the Dow album.

I consider these chart albums to be indispensable for market students, investors, funds, banks and institutions. There is nothing like them available anywhere. The price is \$135 for the D-J Averages album and \$95 for the Dow/A-D ratio album. We pay the postage. However, for subscribers residing outside the US, Mexico or Canada please include air parcel post extra charge of \$35 for each album.

THE NEW 1992 PAGES WILL BE AVAILABLE WITHIN A MONTH. For those who already have the albums and wish the new pages, the price is \$3 for each page (and we do have back pages as well).

GOLD: A few weeks ago the central bank of the Netherlands quietly sold a fifth of its gold reserves. Why? Maybe they'd rather have marks or dollars or yen or a currency that pays them interest. It doesn't matter because the market (or somebody out there) absorbed the huge sale rather easily.

One by one the world's currencies are being devalued. Britain, Portugal, Spain and Italy have already devalued their currencies against the D-mark. The pound sterling and Italy's lira have said "Good-bye" to the European Exchange Mechanism (ERM).

Ah the dollar, there's the question. The whole world is watching as Bill Clinton wrestles with the question of deficits vs. economic stimulation. Already, the word is that the Clinton people are putting pressure on the Fed to accommodate -- just in case the Clintonites decide to spend another twenty billion or so, and just in case they decide that deficits don't matter (or at least they decide that deficits don't matter this year).

All the while the US debt build-up continues. Over the last 12 months the nation has added \$389 billion to the total Federal debt. That comes out to \$1.05 billion in overspending every day, 365 days a year. Can any currency hold up under that kind of deficit spending? Maybe, but I'm not selling my gold, not yet.